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C O N F I D E N T I A L SECTION 01 OF 06 ISLAMABAD 004108

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SUBJECT: U.S.-PAKISTAN STRATEGIC DIALOGUE, SEPTEMBER 12

ISLAMABAD 00004108 001.2 OF 006

Classified By: Anne W. Patterson for reason 1.4 (b) and (d)

¶1. (SBU) The second session of the U.S.-Pakistan Strategic Dialogue took place in Islamabad on September 12, 2007. Deputy Secretary of State Negroponte and Foreign Secretary Khan chaired the meeting and agreed that future sessions of the Dialogue should occur every six months. The Pakistanis also requested that agriculture be added as another "track" in the Dialogue. Post will provide a final list of agreed activities after conferral with the Ministry of Foreign Affairs.

Opening Statements

¶2. (SBU) Deputy Secretary John Negroponte and Foreign Secretary Riaz Khan chaired the second meeting of the U.S.-

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Pakistan Strategic Dialogue launched by Presidents Bush and Musharraf in Islamabad in March 2006. The two Presidents committed both countries to enhance cooperation in the areas of economic growth and prosperity, energy, peace and security, social sector development, science and technology, democracy and non-proliferation. The Strategic Dialogue is an expression of the close cooperation between our two countries on issues vital to Pakistan's continued economic growth and work on poverty alleviation.

¶3. (SBU) Foreign Secretary Khan noted the great importance that Pakistan attaches to the Strategic Dialogue and noted that it represents a new dimension in the bilateral relationship. Noting the sixth anniversary of the 9/11 attacks, he emphasized the importance of a relationship that is not based on one element but is strong and broadly address challenges whenever necessary. Deputy Secretary Negroponte noted the importance the U.S. places on our relationship with Pakistan and specifically outlined our cooperation in the war on terror, the U.S. package for foreign assistance to Pakistan, the proposal to establish Reconstruction Opportunity Zones and the \$750 million pledge for development of the Federally Administered Tribal Areas over the next five years.

¶4. (SBU) Break-out sessions of the Strategic Dialogue focused on the four tracks: education, economic growth, energy and science and technology.

15. (SBU) Jahangir Bashar, Federal Secretary of Education, and Mark Ward, Senior Deputy Assistant Administrator (DAA), USAID, chaired the Education sub-group session with Dr. Sohail Naqvi, Executive Director, Higher Education Commission, leading the discussion on higher education.

16. (SBU) In his introductory remarks, Secretary Bashar presented education statistics that call for continued bilateral support to address a dropout rate of 31 percent, literacy rate of 54 percent, and a large disparity in female access to education. In laying out how the Ministry is responding to these poor indicators, he reported that the new education policy had been drafted and was to be submitted to the Cabinet for their approval on September 15. Bashar announced that the new national curriculum had been approved but the distribution of textbooks would be delayed by one year. He also announced that the Ministry had carried out a National Education Census that will provide a better statistical basis for policy and planning. Bashar also highlighted several areas for improvement, such as better progress in addressing Universal Primary Education commitments; advancement in the field of vocational technical training; capacity development for education managers; and the need for development of accreditation systems and standards to improve the quality of teachers. Bashar also welcomed the expansion of the Fulbright program.

17. (SBU) Dr. Naqvi reported that several of the ideas originally discussed with the U.S. in 2002 had become realities, including the USAID-supported Need/Merit based scholarship program. Naqvi pointed out that not only does the USAID program provide 1,000 scholarships, but it also has helped to establish offices of financial aid and procedures for processing scholarship awards. Dr. Naqvi outlined a number of new initiatives and asked the U.S. to consider

ISLAMABAD 00004108 002.2 OF 006

supporting them. USAID agreed to initiate immediate consultations with the Higher Education Commission for the development of USAID's next five-year strategy on higher education.

18. (SBU) USAID Senior DAA Ward reiterated Bashar's earlier comments about the importance of improving teacher education and agreed that this was an area for continued joint cooperation. Ward asked whether the Ministry felt it was being consulted on the development and monitoring of U.S.-funded programs in education. Bashar indicated that coordination had in fact improved. USAID and the Ministry agreed to meet regularly, especially in the development and design of new programs.

19. (SBU) Regarding the geographical coverage of U.S. support, Bashar requested that the U.S. consider providing support to the Northwest Frontier Province, Azad Jammu and Kashmir, and Punjab in the national programs. Ward responded that while Punjab already receives heavy support, the U.S. could consider supporting these regions in future programs. Ward cautioned the Ministry that if the geographical coverage was too broad, funding might be too stretched to make a real difference.

110. (SBU) Both sides agreed that teacher education, access, improved literacy, and reduced drop-out rates were important and that USAID's new program will address these areas. They also agreed to continue joint monitoring and close cooperation on all education support in Pakistan and to review the geographical expansion of education support. The Ministry appreciated the coordination efforts in the design of USAID's new Links to Learning program, the \$90 million flagship program in education, and noted that proposals submitted to the U.S. at the last Education Dialogue (November 2006) had been incorporated into the new program.

Bashar closed the session by commenting on the need for development programs to use local institutions such as school management committees to ensure the sustainability of joint efforts in education.

Economic Growth: Reconstruction Opportunity Zones,
Tribal Areas, Intellectual Property and Money Laundering

¶11. (SBU) The Economic Growth and Development breakout session, chaired by Economic, Energy and Business Affairs Deputy Assistant Secretary (EEB DAS) Chris Moore and Commerce Ministry Secretary Asif Akhtar Syed, covered Reconstruction Opportunity Zones, Tribal Areas development, intellectual property rights protection and the upcoming out-of-cycle review, and touched on Pakistan's recently issued anti-money laundering ordinance. The U.S. acknowledged issuance of the anti-money laundering ordinance as a positive development and added that we are still reviewing its provisions. Other Government of Pakistan participants included representatives from the Prime Minister's office, Board of Investment, Ministry of Health, Intellectual Property Organization, Ministry of Finance, Central Board of Revenue, Federal Investigative Agency, and Economic Affairs Division. The Embassy's Economic and Commercial Affairs Counselor and Economic Specialist also participated.

¶12. (SBU) On the Reconstruction Opportunity Zones, Moore explained that the legislation is nearly ready to be introduced in Congress and included many of Pakistan's recommendations. He also highlighted that most trade preference legislation requires years to develop and must take into account U.S. textile and apparel sector sensitivities. He asked for Pakistani Government and private sector support going forward and cited the Karachi Chamber of Commerce U.S. trip as a useful model. Moore also urged Pakistan to start thinking about implementation (i.e., location, incentives, training, and ensuring worker rights protections). Secretary Shah agreed that the Pakistani Government would work on Reconstruction Opportunity Zone implementation in advance of the October 23 Economic Dialogue in Washington.

¶13. (SBU) Shah and his team made another push for inclusion of tariff lines 347 and 348 (men's and women's cotton trousers), arguing that Pakistan's small U.S. market share in these categories would not harm U.S. producers and that the job creation benefits would outweigh the costs. Moore pointed out that the legislation is crafted to pass Congress

ISLAMABAD 00004108 003.2 OF 006

quickly; inclusion of 347 and 348 could doom that effort. The Opportunity Zone rules of origin provisions (single transformation) and program duration (15 years) are very generous. Shah also pushed for inclusion of the entire province of Balochistan, arguing that it is less developed than Northwest Frontier Province. Moore responded that inclusion of Gwadar and the area bordering Karachi would detract from the goal of developing the border areas. Shah suggested a cap on the number of Reconstruction Opportunity Zones near Gwadar.

¶14. (SBU) Tauqir Ahmed, Additional Finance Secretary, briefed on Pakistani plans in the Federally Administered Tribal Areas, stressing the need for infrastructure. While the Tribal Areas Secretariat is up and running and small projects are already under way, absorptive capacity will be a problem. He also highlighted the need for additional funding. Moore noted the strong cooperation between the U.S. and Pakistan on Tribal Areas development and the growing success of U.S. efforts to attract additional donors to contribute to Tribal Areas development.

¶15. (SBU) On intellectual property rights protection, Moore urged Pakistan to enact TRIPS-consistent data protection

legislation quickly. Shah and his TRIPS expert explained that the Ministry of Law had revised the law so that it was no longer TRIPS consistent, so they had to go back to the drawing board. He hoped that a meeting would be held next week to discuss the final draft with stakeholders and then finalize the law. He hinted that it would be issued as an ordinance (law signed by the President, without legislative approval, but needing renewal every 90 days). Moore asked if we could see the legislation, noting that the lack of transparency raises serious concerns in both U.S. Government and industry circles. Shah promised to explore sharing the draft. Moore commented that sharing the draft could be an important milestone for the upcoming 301 out-of-cycle review.

He also shared the Federal Register notice for comments for the 301 out-of-cycle review and urged Shah and his team to submit a robust report in advance of the October 15 deadline.

¶16. (SBU) The U.S. and Pakistan agreed that the October 23 Economic Dialogue would include further discussion on the bilateral investment treaty as well as on global and regional issues including Afghan transit trade, Reconstruction Opportunity Zones, Tribal Areas implementation, and intellectual property rights protection. Pakistani Government interagency bilateral investment treaty discussions are still under way; Shah hoped to have a position to share in advance of the October 23 meeting. (Comment: The holdup here appears to be the Attorney General's preoccupation with political cases before the Supreme Court. End Comment.)

Energy: U.S. Private Sector Investment Sought

¶17. (SBU) Principal Deputy Assistant Secretary of Energy Katharine Fredriksen and Mr. Mukhtar Ahmed, Special Advisor to the Prime Minister on Energy, co-chaired discussions to further strengthen bilateral cooperation in the energy field and build on recent accomplishments. The Pakistanis emphasized their need to formulate comprehensive plans to address Pakistan's energy shortfall and their desire to attract U.S. investors in all energy sectors. They also stressed the need for more progress in the Strategic Dialogue energy sessions to help develop programs for fulfilling Pakistan's energy needs.

¶18. (SBU) Noting the February 2007 videoconference on coal and fossil fuels, Ahmed explained that coal is a shared responsibility under the constitution of Pakistan. The federal government sets the policy guidelines but the provinces control the deposits that are located within their borders. Ahmed noted the large coal reserves in the Sindh province and requested U.S. assistance in developing a coordinated plan for Pakistan that clearly delineates the regulatory, legal, and policy issues between the federal and provincial governments, as well as the need for institutional strengthening of all agencies responsible for coal. PDAS Fredriksen noted that the U.S. has a similar division of authorities between the federal government and the state governments and we could share our expertise on this issue.

¶19. (C) Ahmed requested U.S. assistance in making progress on

ISLAMABAD 00004108 004.2 OF 006

the development of the Turkmenistan, Afghanistan, Pakistan, India pipeline. He noted that the Government of Pakistan has been talking with Turkmenistan but is concerned that discussions are not advancing. Ahmed requested U.S. assistance in "neutralizing outside influences" such as China and Russia who are "constraining Turkmenistan from talking freely to Pakistan." PDAS Fredriksen noted that the U.S. Government would like to be helpful on this issue and would carry this message forward.

¶20. (SBU) Renewable energy policy in Pakistan is governed by two agencies: the Alternative Energy Development Board, which

is responsible for developing policy and projects; and the National Electric Power Regulatory Authority, which serves as the regulating authority. Ahmed requested U.S. assistance for capacity building in both institutions to deal with renewable energy issues.

¶21. (SBU) PDAS Fredriksen highlighted the June 2007 release of wind and solar energy resource maps for Pakistan. These assessments were completed by the U.S. National Renewable Energy Laboratory and USAID's South Asia Regional Initiative for Energy. The resource maps indicate a 2.6 Million MW PV-electric capacity potential and a 346,000 MW total wind electric energy production potential. Sindh Province has the most promising near-term development potential, with wind electric potential of 87,000 MW. Three energy-related U.S. Trade and Development Agency grants for feasibility studies totaling \$1.4 million dollars were signed in August 2007 and work is ongoing on waste-to-energy, coal mining and power generation, and wind power. Interagency working group meetings on fossil energy, energy efficiency, and renewable energy will continue to address other opportunities for technical collaboration via digital video conference.

¶22. (SBU) PDAS Fredriksen noted that although the Department of Energy is the focal point in the Strategic Dialogue's Energy sub-group, other U.S. Government agencies (such as Interior, U.S. Trade and Development Agency, USAID, and State) will also need to provide input for these policy assistance requests. Areas of potential collaboration include resource assessments, technology information exchange, technical and regulatory assistance, and energy efficiency planning. The participants discussed holding the next session of the Energy Dialogue in the U.S. within the next few months to further discuss details for the proposed interactions. The Department of Energy will consider these proposed agenda items and other ideas as the possible basis for a Memorandum of Understanding with Pakistan.

Science and Technology: Human Resource Development

¶23. (SBU) The Science and Technology breakout session was chaired by E. Bruce Howard, Director, Office of Science and Technology Cooperation in the Bureau of Oceans and International Environmental and Scientific Affairs (OES), and Professor Dr. Atta-ur-Rahman, Advisor to the Prime Minister on Science and Technology. Also participating in the meeting were Parvez Butt, Secretary, Ministry of Science and Technology, and Dr. S.T.K. Naim, Consultant to the OIC Standing Committee on Scientific and Technological Cooperation (COMSTECH). Discussions focused on the current status of the 2005 U.S.-Pakistan Science and Technology agreement and the projects funded under this agreement; Pakistan's wish for an increasing the funding arrangement and the number of Fulbright scholars from Pakistan; and the establishment of a university of industrial biotechnology.

¶24. (SBU) In 2005, USAID began funding a Science and Technology program under which the U.S. contributes approximately \$2 million per year and Pakistan contributes approximately \$3 million per year. So far, 39 projects have been funded. Atta-ur-Rahman stated Pakistan was willing to increase funding to \$40 million if the U.S. made a similar commitment. Howard replied that funding is always difficult, but there may be a way to provide in-kind contributions, such as the salaries of U.S. scientists working on the joint projects.

¶25. (SBU) Secretary Butt expressed concern that these projects, along with the 16 working groups established after February 2007 meeting of the High-Level Joint Committee on Science and Technology, would focus too much on disparate projects of interest to individual scientists, and not enough

on broader issues, such as institutional capacity building. The Pakistan side noted how several countries had provided linkages to their universities or a consortium of universities to establish institutes in Pakistan offering joint degree programs. They requested U.S. help in establishing an institute for industrial biotechnology. Atta-ur-Rahman pointed out that Pakistan had the money for the building and equipment, but required U.S. expertise in curriculum development and teaching. Howard agreed this would be a worthwhile project and promised to work on finding university linkages.

¶26. (SBU) Atta-ur-Rahman requested an increase in the number of Fulbright scholarships offered to Pakistan. He promised to increase funding from Pakistan in order to make this work. Howard pointed out that Pakistan has the world's largest Fulbright program and expanding it further would be sensitive at a time when some countries are limited in the number of scholarships they receive.

¶27. (SBU) In the end, most of the discussion boiled down to an increase in funding. Atta-ur-Rahman has additional funds and is willing to spend them, but only if there is reciprocity from the U.S. side. He suggested taking a portion of the \$200 million in annual budget support funds that USAID transfers to Pakistan and earmarking it for science and technology programs. He stated this money would be considered matching support from the U.S. side, which would allow him to release additional funds of his own.

Closing session: Energy

¶28. (SBU) After short statements from Secretary Khan and Deputy Secretary Negroponte, the leads from each of the four breakout groups reported the results of their sessions. On energy, Special Advisor to the Prime Minister Muktar Ahmed explained that his group had taken stock of progress to date in the Energy Dialogue with two video conferences on coal/fossil fuel and alternative energy sources already held. On coal/fossil fuels, Ahmed noted Pakistan's growing needs for private sector investment and technical assistance in the energy sector to bridge the growing gap between Pakistan's energy needs and actual production. He also commented on the need to work on energy efficiency and conservation and the importance of other U.S. government agencies' involvement. Ahmed also recognized the importance of a good investment climate to attract private sector. Department of Energy PDAS Fredriksen commented that the group had put together a solid agenda for the bilateral meeting later this fall in Washington and that the U.S. and Pakistan will sign a Memorandum of Understanding on energy cooperation.

Closing Session: Economic Growth & Development

¶29. (SBU) EEB DAS Chris Moore described the Economic Growth and Development sub-group's efforts to focus on a broader strategic framework to encompass regional and global economic issues in advance of the October 23 Economic Dialogue in Washington. Within this framework, Moore explained that the Reconstruction Opportunity Zone legislation would be sent soon to the U.S. Congress. He took note of Pakistani interest to include categories 347 and 348 and the entire province of Balochistan in the legislation, but noted the extensive consultation process (including with the Government of Pakistan) needed to develop legislation that is both as broad as possible and can pass Congress quickly. After advocating again for inclusion of categories 347 and 348 and Balochistan, Commerce Secretary Shah emphasized that the Government of Pakistan is pleased with the legislation and strongly supports it. The U.S. expects to work with the Pakistani Government and private sector to build strong, broad support. On intellectual property rights, Moore noted the importance of finalizing and enacting TRIPS-consistent data protection legislation as soon as possible and asked

that the Pakistani Government share its draft. On the Federally Administered Tribal Areas, the U.S. and Pakistan are working to attract additional donors. The U.S. is working with its G8 partners to follow up on commitments made at the 2007 Summit. Shah highlighted the need for infrastructure. On the anti-money laundering legislation, the U.S. is reviewing the September 8 ordinance. Shah noted that the bilateral investment treaty will be on the agenda

ISLAMABAD 00004108 006.2 OF 006

for the Economic Dialogue.

Closing Session: Science and Technology

130. (SBU) OES Science and Technology Office Director Howard outlined progress to date under the 2005 Science and Technology agreement. The U.S. and Pakistan will review 115 project proposals submitted for funding in the final year of the agreement. Both the U.S. and Pakistan are interested in continuing this agreement; Pakistan has funding, but the U.S. still needs to identify matching funds. Dr. Atta-ur-Rahman, Advisor to the Prime Minister on Science and Technology, highlighted that Pakistan wants to upgrade its nine research institutes in partnership with individual foreign countries. He hopes to attract a U.S. university consortium and is seeking \$20 million in funding.

Closing Session: Education

131. (SBU) Education Secretary Bashar emphasized the need for U.S. support on education to achieve regional peace and security. He announced that both sides agreed on stronger integration of education sector planning in the context of meeting Pakistan's development objectives. The two sides agreed to: meet regularly on program issues; continue the focus on teacher education; consider extending the basic education program to other areas, including Northwest Frontier Province, Azad Jammu and Kashmir, and the Federally Administered Tribal Areas; to involve school management committees, parent-teacher associations, and district education offices to ensure program sustainability; and to consult on USAID's next five-year strategy for higher education.

132. (SBU) USAID Senior DAA Ward added that "teachers are the unsung heroes in Pakistan" and that USAID plans to continue its focus on teacher education during the next program. He paired the cooperation on the education programs, highlighting the success of the school management association committees and other local organizations.

Wrap Up: Good discussions; meet again in 6 months

133. (SBU) In brief closing statements, both Khan and Negroponte expressed pleasure with the quality of the discussions and promised to follow up, keeping the respective Embassies informed. In response to Khan's question about the timing of the next meeting, Negroponte and Khan agreed to meet in six months in Washington.

134. (U) The Deputy Secretary's staff has cleared this message.

PATTERSON